RECORD AND BRIEFS

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IN THE

Supreme Court of the United States

OIL STATES ENERGY SERVICES, LLC,

Petitioner,

v.

GREENE'S ENERGY GROUP, LLC, *et al.*,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF *AMICUS CURIAE* ACT | THE APP ASSOCIATION IN SUPPORT OF RESPONDENTS

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INTEREST OF THE AMICUS CURIAE[1]

ACT | The App Association (App Association) is an international grassroots advocacy and education organization representing more than 5,000 small and medium sized software application developers and information technology firms. We are the only organization focused on the needs of small business innovators from around the world. The App Association advocates for an environment that inspires and rewards innovation, while providing resources to help its members leverage their intellectual assets to raise capital, create jobs, and continue to grow.

In light of the critical role that the U.S. Patent and Trade Office's (PTO's) inter partes review (IPR) plays in the U.S. patent system, the App Association has a keen interest in the proper functioning of this system, and the IPR process specifically. Our members rely on their patents to grow their businesses and create new American jobs; however, they have faced, and continue to face, challenges to the validity of their patents. Without the use of the PTO's IPR, federal court litigation is often extremely costly and unattainable by small businesses.

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1. Pursuant to Rule 37.6, amicus affirms that no counsel for a party authored this brief in whole or in part and that no person other than amicus and its counsel made a monetary contribution to its preparation or submission. Petitioner filed a blanket consent in this appeal on July 7, 2017, and respondent provided its consent to the filing of this brief via email dated August 11, 2017. Further, blanket consent was filed by respondent United States Patent and Trademark Office on August 30, 2017.

SUMMARY OF ARGUMENT

Although Petitioner challenges the PTO's authority to perform a post-grant review, its underlying argument attacks something far more fundamental. At the root of its claim, Petitioner is truly challenging the PTO's very authority sanctioned by Congress and core functions by suggesting that Congress cannot set the temporal parameters of determining patentability. Thus, Petitioner takes issue with Congress's ability to enact a statute containing an IPR process for patent rights. The issue in this case is simple: either Congress can delegate the issue of patentability determination to the PTO post-grant, or it cannot at all. Confusingly, Petitioner assumes, given the IPR's adversarial nature, that the determination for patentability is an Article III exercise after the PTO grants a patent right. However, it has not produced any Constitutional provision providing Article III courts with such authority when there is an active IPR statute. Moreover, this Court has long recognized congressional authority to delegate that specific function in Article II fora for statutory rights. *E.g.*, *Stern v. Marshall*, 564 U.S. 462, 491 (2011).

Congress alone determines the existence and the scope of a patent right. *E.g.*, *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U.S. 24, 35 (1923) (recognizing that only Congress can expand or diminish scope of a patent); *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429-30 (1908) (deferring to congressional supremacy over federal courts to determine the scope and validity of patent rights). Once Congress legislates on a particular topic, federal courts are tasked to interpret and apply common law that does not conflict with their intent.

Northwest Airlines, Inc. v. Transp. Workers Union of Am., 451 U.S. 77, 95 n. 34 (1981) (holding "once Congress addresses a subject, even a subject previously governed by federal common law, the justification for lawmaking by the federal courts is greatly diminished. Thereafter, the task of the federal courts is to interpret and apply statutory law, not to create common law."). In the instant proceeding, Congress has made clear that it intends to subject a recent patentee's right to an IPR under the America Invests Act (AIA). As this Court is aware, it is bound by the authority vested to it by the U.S. Constitution and must not exceed that authority. *U.S. v. Nixon*, 418 U.S. 683, 704 (1974) (holding "[this Court] must follow that the Court has authority to interpret claims with respect to powers alleged to derive from enumerated powers [within Article III of the Constitution]."). If the Court chooses to define a patent right as a private right—a Constitutional power that solely belongs to Congress—it will infringe on the separation of powers doctrine. This action would run contrary to clear congressional intent to give the PTO authority to execute a post-grant review of patentability; the Court should respect that delegation.

Moreover, because Congress codified it in the AIA, the PTO's IPR is not subject to a Seventh Amendment challenge. Petitioner relies on dubious reasoning and assumptions in asserting its claim. Due to Congress codifying the process by statute, the IPR is both consistent with Article III and the Seventh Amendment to the U.S. Constitution. Petitioner has not proffered a valid justification as to why the Seventh Amendment requires a jury trial for issues concerning patentability when Congress has explicitly given that right to the PTO.

In its relatively short existence, the software application (app) industry has served as the driving force in the rise of smartphones, tablets, and other internet-connected devices and markets. The burgeoning app economy has revolutionized the software industry, influencing every sector of the economy in every United States (U.S.) federal district. ACT | The App Association, *State of the App Economy 2017* (2016), http://actonline.org/wp-content/uploads/App_Economy_Report_2017_Digital.pdf.

Underlying the growth and ingenuity of this society-altering economy and its related benefits are intellectual property rights, particularly patents. Patents allow small business innovators to protect their intellectual investment in their innovative products, attract venture capital, maintain a competitive position in the marketplace, and level the playing field amongst established companies and competitors. In fact, small businesses produced 16 times more patents per employee than large firms. An Analysis of Small Business Patents by Industry and Firm Size, http://archive.sba.gov/advo/research/rs335tot.pdf; Innovation in Small Businesses: Drivers of Change and Value Use www.sba.gov/sites/default/files/rs342tot_0.pdf.

An IPR proceeding provides a specialized and more efficient process for patent claim dispute resolution. For small businesses, the IPR assists in reducing the high burdens associated with federal court litigation, enabling more vulnerable small businesses that do not have disposable income to engage in lengthy and costly federal court trial expenses to defend their patents. In the hyper-competitive app economy, our members face the reality that any time spent away from obtaining capital

for their business and developing their product could put them at an unrecoverable disadvantage, potentially spelling death for their venture. Conversely, time spent in patent litigation during a court proceeding that lasts years, or costs hundreds of thousands of dollars, is a time and opportunity cost they cannot bear. Even if the parties eventually settle the matter, the litigation process can last for many years. PATENT ASSERTION ENTITY ACTIVITY: AN FTC STUDY, 2016 WL 6639228, at *35 (writing "two-thirds of settled Litigation [patent assertion entity (PAE)] cases were settled within a year whereas half of settled Portfolio PAE cases took more than two years to settle.").

The App Association's members are not large companies; many are startups that have a small number of employees. Much of their day is spent developing a customer base, meeting hard deadlines, finding venture capitalists to help fund their businesses, and other necessary activities. In addition, our members rely on access to patents and are threatened by aggressive licensors, often Patent Assertion Entities (PAEs), who may bring them into costly court proceedings that force them to accept a license in a short timeframe. Some patent licensors rely on the fact that many startups do not have the resources to protect their interests and appropriately challenge the patentability of the claim(s) at issue, thus leaving them vulnerable to licensing arrangements that greatly benefit the licensor. Hence, IPRs serve as an efficient and effective process protecting small businesses like our members from the onerous financial and temporal burden associated with proceedings in front of Article III tribunals. They also serve the public interest by streamlining patent dispute resolutions that

would otherwise congest Article III courts more than they are already.

ARGUMENT

I. GRANTING PETITIONER'S REQUEST WOULD FORCE THE COURT TO VIOLATE THE SEPARATION OF POWERS BECAUSE PETITIONER IS REQUESTING THE COURT TO EXECUTE RIGHTS VESTED IN ARTICLE I OF THE CONSTITUTION

Although Petitioner challenges the PTO's authority to perform a post-grant review, its underlying argument attacks something far more fundamental. At the root of its claim, Petitioner is truly challenging the PTO's very authority sanctioned by Congress and core functions by suggesting that Congress cannot set the temporal parameters of determining patentability. Thus, Petitioner takes issue with Congress's ability to enact a statute containing an IPR process for patent rights. The issue in this case is simple: either Congress can delegate the issue of patentability determination to the PTO post-grant, or it cannot at all. Confusingly, Petitioner assumes, given the IPR's adversarial nature, that the determination for patentability is an Article III exercise after the PTO grants a patent right. However, it has not produced any Constitutional provision providing Article III courts with such authority when there is an active IPR statute. Moreover, this Court has long recognized congressional authority to delegate that specific function in Article II fora for statutory rights. *E.g.*, *Stern v. Marshall*, 564 U.S. 462, 491 (2011).

Article I of the Constitution clearly gives Congress the authority to define a patent right and where it can be adjudicated. *McClurg*, 42 U.S. at 206 (holding "... the powers of Congress to legislate upon the subject of patens is *plenary by the terms of the Constitution*, and as there are *no restraints on its exercise*, there can be *no limitation of their right to modify* them at their pleasure, so that they do not take away the rights of property in existing patents." [Emphasis added]). Additionally, Congress alone determines both the existence and the scope of a patent right. *E.g.*, *Crown Die & Tool Co. v. Nye Tool & Machine* Works, 261 U.S. 24, 35 (1923) (recognizing that only Congress can expand or diminish scope of a patent); *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 429-30 (1908) (deferring to Congress's supremacy over federal courts to determine the scope and validity of patent rights). Once Congress has spoken on a particular topic, the task for federal courts is to interpret and apply common law that does not conflict with their intent. *Northwest Airlines, Inc. v. Transp. Workers Union of Am.*, 451 U.S. 77, 95 n. 34 (1981) (holding "once Congress addresses a subject, even a subject previously governed by federal common law, the justification for lawmaking by the federal courts is greatly diminished. Thereafter, the task of the federal courts is to interpret and apply statutory law, not to create common law."). In the instant proceeding, Congress is clear that it intends to subject a recent patentee's right to an IPR under the AIA and the Court should follow through with Congress's intention.

This Court is bound by the authority vested in it by the U.S. Constitution and must not exceed that authority. *U.S. v. Nixon*, 418 U.S. 683, 704 (1974) (holding "[this Court] must follow that the Court has authority

to interpret claims with respect to powers alleged to derive from enumerated powers [within Article III of the Constitution]."). Therefore, it should interpret the relevant statute as Congress has written and not circumvent their intentions by redefining concepts that fall outside of its Constitutional purview (e.g., the nature of a patent right). If the Court chooses to define a patent right as a private right—a Constitutional power vested squarely with Congress—it will certainly infringe on the separation of powers doctrine because it would run contrary to clear congressional intention to delegate a post-grant review process (i.e., IPR) to the PTO.

A. Petitioner's Argument Relies on an Erroneous Assumption That the Nature of a Patent Right Is a Derivative of Article III of the U.S. Constitution and Not Article I

Congress alone determines both the existence and the scope of a patent right at all stages. *E.g.*, *Crown Die & Tool Co.*, 261 U.S. at 35; *Continental Paper Bag*, 210 U.S. at 429-30. In its brief, Petitioner bases its assertions on a flawed assumption when it contends that the PTO's IPR process is unconstitutional and that an Article III court maintains an authority to circumvent congressional intent in this regard. Petitioner attempts to have the Court circumvent congressional intent and put it into a position where it exceeds its Constitutional purview, because it is clear from the perspective of the Constitution that Congress maintains that authority, and they intend to include an IPR process under section 311 of the AIA to be executed by the PTO.

In this case, Congress sanctioned the Patent Trial and Appeal Board (PTAB) within the PTO to engage in a post-grant review to determine patentability under sections 102 or 103 of the AIA. 35 U.S.C. § 311 (2013). Section 102 specifically demands that the "claimed invention" be novel. 35 U.S.C. § 102 (2012); *see Cuozzo Speed Technologies, LLC v. Lee*, 136 S.Ct. 2131, 2149 (2016) (Alito, J., concurring in part dissenting in part). Where section 103 requires the claimed invention be "nonobvious." 35 U.S.C. § 103 (2012); *see Cuozzo Speed Technologies*, 136 S.Ct. at 2149. These are the only two justifications the PTAB may invalidate a patent engaging in an IPR. § 311(b). However, the Constitution is clear; Congress may sanction the PTO to engage in a post-grant review to determine a patent's validity and the Court should recognize and respect that intention.

i. Article I of the Constitution, On Its Face, Makes Clear that Congress Determines the Nature and Scope of a Patent Right

Under Article I of the Constitution, Congress may determine the nature of a patent right. U.S. Art. I § 8, Cl. 8. Article I gives Congress the "power...to the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries..." *See id.* Congress used this clause as its basis to enact the AIA. H. Rept. 112-98. This clause also affords Congress the ability to determine the status of a right. *See Gayler v. Wilder*, 51 U.S. 477, 494 (1850) (writing "[patent rights were] created by the act of Congress; and no right can be acquired in it unless authorized by statute, and in the manner the statute prescribes."). Therefore, Congress has sole discretion as to how a patent right is defined.

Petitioner's argument implicitly invokes Article III's "cases and controversy" clause to advance its claim that patentability determination fits squarely in a court's jurisdiction. However, its assessment is misguided, because the issue before the Court is whether the PTO can reexamine the patentability of a claim, which fits squarely under the PTO's delegated authority under Article I. Thus, the PTO is well within its bounds because Congress delegated that authority to it. *See* 35 U.S.C. § 311; *see also*, *McClurg*, 42 U.S. at 206.

Patent rights "exist only by virtue of statute." *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 at n. 5 (1964). By logical extension, Congress can determine the very nature of the right, and, given its enactment of the AIA providing for a post-grant review in an Article II forum, it is clear Congress intended patentability to be adjudicated at the PTO, which is their sole discretion. If the Court were to adopt a conclusion contrary to the one proffered here, then it will effectively run afoul to the separation of powers by placing itself in the position of Congress, because, in essence, it would be executing a power exclusive to Article I—defining the nature of a patent right.

In Petitioner's brief, the fact that patent rights are only recognized by statute is artfully left out of its argument. Nowhere in its argument does it even mention the fact that Congress can define a patent right. Instead, it wants the Article III courts to make such a determination, which, if adopted, would run afoul to the separation of powers. Petitioner's argument merely relies on the assumption that Congress does not have this ability and uses this misguided assumption to promulgate baseless assertions

suggesting that Congress is "divest[ing] federal courts of judicial power." Petitioner Brief at 35. When in all reality Congress has the sole discretion to define a patent right as either a public or private right, because it is a right of their own invention. Thus, it is clear of Congress's intention to sanction the PTO's IPR, which is well within their prerogative, not the Court's.

By claiming that a patentee assumes a private property right post-PTO grant, Petitioner's argument seeks to bifurcate Constitutional responsibility between Congress and an Article III court by suggesting that Congress can only define the nature of a patent right before it is granted and the courts then have that domain post-grant. However, nowhere in its brief does it describe how, from the perspective of Constitutional authority, this transfer occurs. It is clear that the Petitioner is not contesting Congress's authority to delegate a patent grant to the PTO initially, but it supplies the Court with very little justification as to why Congress's authority is extinguished when it enacted section 311 of the AIA to have the PTO correct its mistake under an IPR. Therefore, Petitioner seems to believe that a patent, in its inherency, is a private right at every stage of its existence—a feature noticeably absent from both the Constitution and any statute enacted by Congress.

Petitioner attempts to make a patent right tantamount to ownership of a physical property, such as a house or an acre of land. Petitioner believes that, because Congress provides patentees the right to exclude, they, therefore, must have intended this right to be a private right. Brief of Petitioner at 29; *See* 35 U.S.C. § 154(a)(1) (2017). Even following that logic, Petitioner has yet to demonstrate

a context other than patents where a person or entity's private property's right to exclude was subject to a government imposed timeline before it is to forfeit that property back over to the government. 35 U.S.C. § 154(a)(2) (mandating that a patentee has only 20 years to exclude others from using it).

A patentee's property right is more clearly akin to a broadcaster seeking to license spectrum from the Federal Communications Commission (FCC); where the FCC issues a broadcaster a license for a spectrum block with a set amount of time in which the broadcaster can use the set aside spectrum (including the right to exclude other from using it) with the understanding that the property must be given back to the FCC when the term of the license expires. In the event the FCC finds that the broadcaster exceeded the scope of her license before the license's term ends, it allows the broadcaster to engage in an adversarial hearing in front of an administrative law judge within the FCC to fight the claim. Much like the FCC issuing a license for spectrum to a broadcaster, after a patent's 20-year term expires, her patent right must be returned to the PTO for public use and, if the patentee's patent is invalid or overbroad, then the PTO allows for the patentee to engage in adversarial hearing, i.e., an IPR, before making its determination. Given the Court has not found the FCC's actions to be unconstitutional, it would be wholly inconsistent to find the PTO's in this case.

ii. The Court's Own Precedent Endorses the Interpretation that Congress Determines the Nature of a Patent Right and Where It Can be Adjudicated

The Court has long held that Congress determines the nature of a patent right. Moreover, if it decides to the contrary, then it would directly conflict from all of its own precedent to the contrary spanning over a century that expressly recognizes that fact. *See, McClurg v. Kingsland*, 42 U.S. 202, 206 (1843); *Gayler*, 51 U.S. at 494; *Murray's Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. 272, 284 (1855); *Sears*, 376 U.S. at 229; & *Thomas v. Union Carbide Agric. Prods. Co.*, 473 U.S. 568, 587 (1985). Many lower courts have relied upon and agree with the Court's interpretation and have already held the PTO's IPR process as constitutional. *E.g.*, *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015).

The Court recognizes that they play by Congress's rules, and not the other way around when it comes to patent law. *McClurg*, 42 U.S. at 206. Moreover, if Congress sanctions the PTO's ability to correct its own mistake, then it must recognize it. In the context of the novelty of patent claims, if there are not novel patents in the market and it cannot be corrected by the PTO; then, ultimately, we could have two identical claims for two different patents. Hence, this would adversely affect the patentee who filed that claim first to be able to use or license his/her patent if the second patentee's right is recognized. *See id.* Moreover, if the PTO cannot execute an IPR to correct its mistake of granting a patent with an already encumbered claim, then, in effect, they would be infringing on the first filers' patent rights by not taking action. This situation is why,

in part, Congress created the IPR in the first place. Thus, Congress, exercising their "plenary" and "unrestrained" authority in this regard, created a statute to preserve existing rights of patent holders by keeping ones that are not novel out of the market. *See id.*

As the Federal Circuit noted in remarking on similar arguments made by the plaintiffs in *MCM Portfolio*, it is a peculiar position to take. Mainly, because, if a party is not disputing that the PTO does not possess the authority to determine patentability initially, then, in essence, that party is asserting that the PTO is not allowed to correct its mistake, which is logically inconsistent. Petitioner does not seem to appreciate that a patent right "derives from an extensive federal regulatory scheme," *Stern v. Marshall*, 131 S.Ct. 2594, 2613 (2011), and is created by federal law. Congress created the PTO, "an executive agency with specific authority and expertise" in patent law, *Kappos v. Hyatt*, 566 U.S. 431 (2012), and saw powerful reasons to utilize the expertise of the "PTO for an important public purpose—to correct the agency's own errors in issuing patents in the first place." *MCM Portfolio*, 812 F.3d at 1293. Thus, Congress created the patent right and delegated the discretion of its validity to an executive administrative agency, the PTO.

The issue Petitioner brings here is whether the PTO, under its congressional delegation, properly granted the patent initially; a right "that can only be conferred by the government." See *Crowell v. Benson*, 285 U.S. 22, 50 (1932). Due to the fact that Congress defines the nature of a patent right, *Supra.* Sec. I.A.i.; it has the ability to delegate authority to the PTO to determine patentability, even in the context of post-grant review. Therefore,

Petitioner's arguments rely on a premise that is neither based in fact nor in law, because nowhere in its brief does it give credence to the fact that patent rights are a creation of Congress. It merely proffers its premise that a post-grant patent right is somehow an Article III enumerated power without pointing to a particular provision in the U.S. Constitution.

II. DUE TO CONGRESS ENACTING THE AIA TO INCLUDE AN IPR, IT HAS MADE PETITIONER'S SEVENTH AMENDMENT CONSIDERATION IN THIS CASE IRRELEVANT

Because Congress codified it in the AIA, the PTO's IPR is not subject to a Seventh Amendment challenge.

> "The exceptions to the charge were confined to these two points, which constitute the only subject for our consideration. *Whether these exceptions are well taken or not, must depend on the law as it stood at the emanation of the patent*, together with such changes as have been since made; for though they may be retrospective in their operation, that is not a sound objection to their validity; *the powers of Congress to legislate upon the subject of patens is plenary by the terms of the Constitution, and as there are no restraints on its exercise, there can be no limitation of their right to modify them at their pleasure, so that they do not take away the rights of property in existing patents* (Emphasis added)." *McClurg*, 42 U.S. at 206.

As Congress codified in the AIA, the PTO's IPR is not subject to a Seventh Amendment challenge. However, those in favor of Petitioner's position might feel that the phrase "take away the rights of property in existing patents" potentially lends to their argument. This analysis is wrong because they would most likely neglect the phrase "must depend on the law as it stood at the emanation of the patent." This means that patents, at the time they granted, are governed by the existing law at that time, and cannot be retroactively taken away by subsequent legislation once granted. The Court clearly states that patents issued under the AIA mean that Congress has permitted the PTO to reserve its ability to challenge the validity of those patents, and have effectively taken the consideration out of the hands of an Article III court. Thus, the Seventh Amendment is irrelevant.

Petitioner argues also that it has a right to a trial by jury under the Seventh Amendment, which is, in its view, proscribed by the IPR. The Seventh Amendment provides that, "[i]n Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved...." U.S. Const. Amend. VII. This Court stated that "the Seventh Amendment is generally inapplicable in administrative proceedings, where jury trials would be incompatible with the whole concept of administrative adjudication and would substantially interfere with [the agency's] role in the statutory scheme." *Curtis v. Loether*, 415 U.S. 189, 194 (1974). *Curtis* upheld "congressional power to entrust enforcement of statutory rights to an administrative process or specialized court of equity free from the structures of the Seventh Amendment." *See id.* at 195. Patents are statutory rights, and it is up to Congress as to how they ought to be adjudicated.

Additionally, in its brief, Petitioner claims that the Seventh Amendment guarantees a jury trial "[i]n suits at common law," including those to vindicate "statutory rights that are analogous to common-law causes of action ordinarily decided in English law courts in the late 18th century." Petitioner Brief p. 18 (citing *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 40-41, 42 (1989)). However, it makes no mention as to where in either the Seventh Amendment or the case law interpreting the Seventh Amendment warrants a jury trial to determine the issue of patentability. Rather it focuses this claim on patent infringement, which is an entirely different concept. Instead of addressing this logical leap, Petitioner attempts to recycle its argument where it conflates a patent right with a private right (e.g., owning a parcel of land) without justifying why it believes an Article III court has the sole authority to make that characterization, when it does not.

Confusingly, Petitioner continues to discuss patent infringement, and not patentability, when it relied on Supreme Court precedent invoking 18th century English law as the basis for its claim related to the Seventh Amendment. Petitioner Brief at p. 54-55. The Petitioner contends that the reason the Seventh Amendment applies to the issue of patentability is because patents were tried in the English Court of Chancery. *See id.* However, this point does not seem to take into consideration that, in England, the courts were not bound by a Constitution. In the U.S., our Constitution defines the parameters of powers for each faction of our government. Article I unequivocally renders this point moot because it gives Congress the authority to define all aspects of a patent right, even where its validity—pre- or post-grant—can be adjudicated. Thus, Congress enacting Section 311 of the AIA makes a Seventh Amendment analysis in this case irrelevant.

Moreover, Petitioner had not demonstrated that English common law affords patentability a jury trial; it only showed that it afforded that right to cases involving patent infringement. Petitioner stridently claims that "English history is clear that patent-validity questions were [tantamount to common-law causes of action ordinarily decided in English law courts]." Petitioner Brief at 18. Then, immediately after, it quotes *Markman v. Westview Instruments, Inc.* that states "[a]n action for *patent infringement* [was] one that would have been heard in the law of old England (emphasis added)." *See id.* (citing *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 992 (Fed. Cir. 1995). It appears Petitioner intended to use this conflation as a way to advance its point without demonstrating that patent infringement and patentability are one in the same or at least show that the Seventh Amendment affords both a right to a jury trial.

Therefore, Petitioner has not proffered a valid justification as to why the Seventh Amendment requires a jury trial for issues concerning patentability when Congress has explicitly given that right to the PTO.

III. PATENTS – AND PREDICTABILITY IN THE FUNCTIONING OF THE PATENT SYSTEM – ARE VITAL TO THE APP ECONOMY'S CONTINUED GROWTH

The app ecosystem's success relies on continued innovation and investment in connected devices and will hinge on the strength of the legal frameworks that underlie them. Small business innovators value their patents and rely on the ability and predictable environment to protect their rights, whether in licensing or in litigation. As more

consumer and enterprise devices connect to the internet – a phenomena commonly referred to as the internet of things (IoT) – apps will become the primary interface for communicating on these devices. Morgan Reed, Comments of ACT | The App Association to the National Telecommunications and Information Administration regarding The Benefits, Challenges, and Potential Roles for the Government in Fostering the Advancement of the Internet of Things, ACT | The App Association (June 2, 2016), http://actonline.org/wp-content/uploads/NTIA-Comments-on-IoT-Regulations.pdf. Patents allow small business innovators to protect their intellectual investments in their innovative products, to attract venture capital, maintain a competitive position in the marketplace, and level the playing field among established companies and competitors. Small businesses produced 16 times more patents per employee than large firms. An Analysis of Small Business Patents by Industry and Firm Size, http://archive.sba.gov/advo/research/rs335tot.pdf; Innovation in Small Businesses: Drivers of Change and Value Use www.sba.gov/sites/default/files/rs342tot_0.pdf.

Courts, app companies, and others in the tech ecosystem have long faced issues involving invalid or overbroad patents in the market. Courts attempted to ameliorate the issue of invalid patents by articulating a framework to determine a patent's eligibility. *E.g.*, *Alice Corp. Pty. Ltd. v. CLS Bank Intern.*, 134 S.Ct. 2347 (2014) (invalidating a patent concerning a method claims requiring generic computer implementation). Before the current IPR process was implemented, the previous patent system allowed bad actors to take advantage of the system by forcing prospective licensees into courts that statistically favored patent holders. Brian Howard, *2017*

Second Quarter Litigation Update, Lex Machina (Jul. 18, 2017) (reporting "a large percentage of the patent cases have been filed in the Eastern District of Texas – typically between 30 and 40 percent.") https://lexmachina.com/2017-second-quarter-litigation-update/. The growth of invalid patents throughout the market served as the impetus for Congress' decision to enact the AIA; the inclusion of an IPR process was crucial to resolve these issues. *See MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1290-91 (2015) (writing "Congress sought to "provid[e] a more efficient system for challenging patents that [the PTO] should not have issued...").

Ultimately, Congress acted to pass the AIA to prevent such harmful trends from continuing *ad infinitum*. We call on the Court to ensure that small businesses continue to have a fair opportunity to challenge their patent claims by voting in favor of the Respondent in the case at bar.

IV. IPR PROVIDES SMALL BUSINESSES A COST-EFFICIENT WAY TO DEFEND THEIR PATENTS AGAINST INFRINGEMENT CLAIMS

The IPR process provides a much-needed resource for small businesses that do not have the ability to withstand years of expensive federal court litigation. By enacting the AIA, Congress recognized "a growing sense that questionable patents [were] too easily obtained and are too difficult to challenge." H.R. Rep. No. 112–98. Congress sought to "provid[e] a more efficient system for challenging patents that should not have issued" and to "establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs." *See id.* Small

businesses, the main drivers of the U.S. economy, were at the core of Congress's decision to enact the AIA; the IPR process provided a more affordable and efficient recourse for small businesses to exercise their rights – whether defending the validity of their granted patent or challenging a granted patent.

A. Small Businesses Do Not Have the Resources to Fight Claims in Federal Court

Obtaining capital to fund their businesses while concurrently developing their product is the reality our members face. Joel Thayer, *To Innovate, We Must Repatriate*, ACT | The App Association (Apr. 18, 2017) (writing "[f]or small businesses, access to capital is crucial, and members of ACT | The App Association understand this all too well. Small businesses in the app economy participate in an integrated and collaborative market, in which they rely on the technologies, platforms, and investments of much larger firms to operate.") http://actonline.org/2017/04/18/to-innovate-we-must-repatriate/. Spending years and hundreds of thousands of dollars in a court proceeding is an opportunity cost that they cannot bear. Even in instances when disputing parties settle the matter, the litigation can last for many years. PATENT ASSERTION ENTITY ACTIVITY: AN FTC STUDY, 2016 WL 6639228, at *35 (writing "two-thirds of settled Litigation PAE cases were settled within a year whereas half of settled Portfolio PAE cases took more than two years to settle.").

In terms of actual cost, a 2010 study found that patent litigation in the United States could cost anywhere between "$3 to $10 million." World of Intellectual Property Organization, *WIPO Magazine*, WIPO (2010)

http://www.wipo.int/export/sites/www/wipo_magazine/en/pdf/2010/wipo_pub_121_2010_01.pdf. In 2015, the American Intellectual Property Law Association (AIPLA) reported that patent infringement cases with less than $1 million at risk could still be faced with an average cost of $400,000 to get through the discovery process of the claim, which is only a fraction of the entire proceeding. AIPLA, *Report of the Economic Survey*, at p. 37 (2015) http://files.ctctcdn.com/e79ee274201/b6ced6c3-d1ee-4ee7-9873-352dbe08d8fd.pdf (AIPLA Survey). For small app developers, these costs raise a significant barrier for patent litigation, leaving them more likely to accept a license than fight the case.

Even app developers who charge for their app downloads on a profitable platform often do not have sufficient earnings to tackle patent litigation. For example, developers on Google's app platform yield a revenue of $.01875 per download. Tristan Louis, *How Much Do Average Apps Make?*, Forbes (Aug. 10, 2013) https://www.forbes.com/sites/tristanlouis/2013/08/10/how-much-do-average-apps-make/#72f5aabb46c4. On a more profitable platform, like Apple's iOS, an app developer can make $.10 per download. *See id.* If an app developer sells an app on Apple's iOS and receives 40,000 downloads, he or she will only make $4,000 of actual revenue. Therefore, most app developers cannot rely on download purchases alone, and must look to venture capital investors to fund their business. This makes their time even more invaluable, and litigation even more consequential.

In short, the IPR process presents a time and cost-effective alternative to traditional litigation, supporting Congress's interests to modernize the U.S. patent system and advance the public good.

B. IPR Provides Small Businesses with a Cost-Efficient Forum to Defend Their Respective Patents

IPR has proven to cut significant costs to litigants, while preserving the rights of the parties. This affords our members the ability to fight off or defend claims effectively and efficiently without expending too much hard-earned capital. Preserving said capital to invest in research, development, and innovation is essential to the continued growth of the app economy. The longer our innovators are burdened with frivolous patent claims, the more stagnant that growth becomes.

IPR has proven cost and time saving measures to resolve patent disputes. In its 2015 study, AIPLA found that IPR saves litigants an average of $250,000 when disputing patent claims. *See* AIPLA Survey. In fact, it has proven so effective that the PTO, measuring at the mid-point of 2017, is experiencing a 27 percent increase in IPR petitions from last year. Stephen Maebius, *2017 Mid-Year Statistics Point to Continued Rise in IPR Petitions*, National Law Review (Apr. 28, 2017) found here: https://www.natlawreview.com/article/2017-mid-year-statistics-point-to-continued-rise-ipr-petitions. Moreover, the PTAB found 4,496 patents challenged in the IPR process unpatentable, roughly 12 percent of all challenges reaching a final decision. Michelle Lee, *PTAB Update: Proposed Changes to Rules Governing PTAB Trial Proceeding*, PTO Blog (Aug. 19, 2015) found here: https://www.uspto.gov/blog/director/entry/ptab_update_proposed_changes_to.

This figure might seem low, but, as some legal commenters have suggested, the figure is deceiving. *E.g.*, Matt Cutler, *3 Years of IPR: A Look at the Stats*, LAW360 (Oct. 9, 2015, 3:59 PM) found here: https://www.law360.com/articles/699867/3-years-of-ipr-a-look-at-the-stats. The "PTO considered [, when making its calculation,] not just claims that were included in a petition, but also claims that were in a challenged patent, but not ever challenged in a petition." *See id.* For example, if a patent holder has 20 claims and a petitioner only requests the PTAB to invalidate 6 of those 20 claims, the PTO has counted the matter as "surviving" an IPR challenge, even if the PTAB invalidated the 6 claims the petitioner requested. *See id.* Thus, the number of patents, or at least certain aspects of its patentability, the PTAB has found unpatentable is likely much higher with this added consideration. But for the IPR process, aggressive patent litigants, such as PAEs, would be able to use these thousands of invalid patents to file claims against small businesses, like our members.

As noted above, the App Association's members are not large companies. Many of our members are startups that have a small number of employees. Their days are encumbered with building new customer bases, finding venture capitalists to help fund their businesses, and engaging in other activities essential to the growth of their business. Our members rely on their patent rights, as well as access to patents, to innovate. However, they are threatened by the growing potential of being forced to address patent disputes in costly federal court proceedings if they do not accept initially-offered terms, under constrained timelines, that may not allow for the full exploration of the patent rights available to the prospective

licensee. Some aggressive litigants rely on the fact that many startups do not have the capital to appropriately challenge the grant of the patent(s) at issue, and use that advantage to force them into licensing arrangements that greatly benefit the aggressor licensee. In this way, IPRs serve as an efficient and effective procedural mechanism by which our members can use to thwart significant financial and temporal burdens associated with proceedings in front of Article III tribunals.

The IPR process allows our members to have a fair, dispassionate tribunal to first assess whether the patent used against them is in fact patentable. Voiding the IPR, a perfectly constitutional and cost-efficient method for the reasons proffered by Petitioner, is both ill-advised and inappropriate.

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

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